

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2018-3-E

In the Matter of:

Annual Review of Base Rates for Fuel
Costs for Duke Energy Carolinas, LLC

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**REBUTTAL TESTIMONY OF
KIMBERLY D. MCGEE FOR
DUKE ENERGY CAROLINAS, LLC**

1 **Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.**

2 **A.** My name is Kimberly D. McGee and I am a Rates Manager supporting both Duke
3 Energy Carolinas, LLC (“DEC” or the “Company”) and Duke Energy Progress, LLC.
4 My address is 550 South Tryon Street, Charlotte, North Carolina.

5 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN SUPPORT OF DEC’S**
6 **APPLICATION IN THIS DOCKET?**

7 **A.** Yes, I did.

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 **A.** The purpose of my rebuttal testimony is to add clarity to South Carolina Energy Users
10 Committee Witness Kevin O’Donnell’s testimony, and to address some
11 mischaracterizations by Witness O’Donnell.

12 **Q. IN WHAT CONTEXT SHOULD OVER OR UNDER COLLECTED BASE FUEL**
13 **COSTS BE VIEWED?**

14 **A.** The fuel statute in South Carolina provides utilities an opportunity to adjust rates outside
15 of a general rate case proceeding for fuel-related costs. This statute allows utilities to
16 estimate fuel costs for an upcoming 12-month period and adjust rates up or down in order
17 to recover such fuel costs, as well as to incorporate a true-up for the over or under
18 collection of previously-estimated costs. Since fuel costs are a significant component of
19 the cost of serving customers, and are subject to volatility, legislators deemed it
20 appropriate for utilities to have the opportunity to collect all prudently-incurred fuel costs
21 in this manner. The fuel statute specifically allows deferral accounting to capture the over
22 or under collection of fuel costs, based on an understanding that actual fuel costs will
23 inevitably be different from estimated fuel costs.

Historically, the Company has been both over and under collected in its annual fuel proceedings. Exhibit MPS-9 filed by ORS Witness Matthew P. Schellinger, II shows that during the period 2009 through 2017, the over or under collection balance for DEC has varied widely, including a high amount of \$53.8 million over collection in 2010, and a low amount of \$529,000 under collection in 2011. The under collection reflected in this case is indeed a significant amount and reflects the uncertainty in fuel costs on which the fuel recovery statute is based. However, when removing the unusual impact of January's extreme temperatures, and considering the history of over/under collections, it is difficult to agree with Mr. O'Donnell's characterization that the remaining amount for the historical period is a "gross" under collection. (Page 5, lines 6-7)

Q. WHAT IS THE COMPANY'S GOAL IN ESTABLISHING ITS PROPOSED BASE FUEL RATES?

A. The Company's goal in establishing its proposed base fuel rates is to set an average annual fuel rate per kWh that will recover its fuel costs during the period, but neither over nor under collect such costs. Despite this objective, it is simply impossible to accurately predict the Company's future fuel costs, since the costs are dependent on many variables, including kWh sales, fuel commodity prices, generating unit availability, market purchase opportunities, etc.; and each of these variables have their own complex dependencies. As a result, an over or under collected balance for a historical period is inevitable.

Q. IN WHAT SENSE DO YOU THINK MR. O'DONNELL'S TESTIMONY CONTAINS SOME MISCHARACTERIZATIONS?

1 A. In Mr. O'Donnell's apparent criticism of the Company's forecast, he notes that "Duke's
2 forecast is consistently inaccurate dating back to June 2017 and July 2017." (Page 5, line
3 15, page 6, line 1) However, this observation fails to realize that, as explained earlier,
4 forecasted costs by definition must be "inaccurate" when compared to actual costs, seeing
5 as they are a forecast based on many assumptions. If it were not so, the legislature would
6 not have needed to provide for deferral of over or under collected fuel costs for recovery
7 in a future period.

8 Mr. O'Donnell's testimony also notes that the Company experienced under
9 collections in June and July 2017 of \$6.8 million and \$11 million, respectively. (Page 6,
10 lines 1-2) Contrary to Mr. O'Donnell's insinuation that this was improper, in reality, the
11 Company actually expects to under collect in months of June and July. Because the fuel
12 rates per kWh are established as an annual average, rather than twelve different monthly
13 rates per kWh, an over or under collection balance in each individual month is "normal,"
14 while cumulatively the monthly amounts are intended to net to zero over the 12-month
15 period. It is expected that the months of June and July would have higher sales than other
16 months, and that collections based on an annual average rate per kWh would result in
17 revenue collections less than the monthly fuel costs incurred in those summer months. In
18 addition, as provided by statute, the Company's approved fuel factors are intended not
19 only to recover estimated fuel costs for the prospective billing period, but at the same
20 time incorporate a true-up component for a prior historical period. For example, in the
21 months of June and July 2017 noted by Mr. O'Donnell, the billed fuel rate had two
22 components: one that collected estimated fuel cost for the months of June and July, and a

1 second component that refunded amounts to customers that the Company had over
2 collected in a prior period. This means that the Company would expect a level of under
3 collection in these months in order to refund prior period amounts to customers. As a
4 result, in months where sales are higher than expected, the Company would not only
5 under collect because actual fuel costs are higher than expected, but would also return
6 more money than anticipated related to the prior period over collection, due to higher
7 sales. This illustrates that analysis of over or under collection can be complex and
8 multifaceted.

9 **Q. HOW DO YOU VIEW THE UNDER COLLECTION THAT THE COMPANY**
10 **SEEKS TO RECOVER?**

11 **A.** While the under collection in this case is large, it reflects both the significant weather
12 extremes during the period, as well as the inevitable “inaccuracies” that occur when
13 attempting to estimate future parameters and conditions that influence fuel costs.

14 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

15 **A.** Yes, it does.